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MEMORANDUM

To: CMAP Transportation Committee

From: CMAP staff

Date: March 4, 2016

Re: Next Long Range Plan: Transportation System Funding Concepts

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As part of the development of ON TO 2050, CMAP staff is currently putting together a series of strategy papers – reviewing current policies, emerging issues, and potential future directions – on various issues. This particular strategy paper will explore transportation system funding concepts, building upon the policy foundation of GO TO 2040. Findings will be used to focus staff's efforts as financial plan development begins in FY 17. This memo presents the initial findings of staff research, which will be further refined with stakeholder input in the final strategy paper.

The strategy paper will consider different concepts for funding the transportation network in the next comprehensive regional plan, focusing on options with the potential to substantially affect revenues and expenditures at the regional level. As such, this analysis does not explore all funding recommendations from GO TO 2040, such as variable parking pricing, nor is it intended to develop an exhaustive list of potential funding sources for the next financial plan. Rather, this strategy paper is an opportunity to identify potential policy changes and associated future analysis. Given this definition, CMAP staff identified seven topics for study in this project and shared the following list with the Transportation Committee in November 2015:

- Alternatives to the state motor fuel tax (MFT)
- Congestion pricing
- Expenditure efficiencies
- Non-user fee revenues
- Public-private partnerships
- Value capture
- Variable transit fares

Note that the next financial plan will likely rely on an array of funding sources, including many that are currently incorporated as established policies in the GO TO 2040 financial plan. Those items are not included in the current scope.

Research Findings

For most of the seven topics identified for study in this project, GO TO 2040 has existing policy guidance and CMAP staff has subsequently developed an extensive body of work. At the November 2015 meeting of the Transportation Committee, staff summarized past CMAP work on alternatives to the motor fuel tax (MFT), congestion pricing, public-private partnerships (PPPs), and value capture. For these topics, as well as non-user fees, staff assessed current policies and lessons learned from subsequent research and outreach. For other topics – expenditure efficiencies and variable transit fares – GO TO 2040 provides little to no guidance. As such, research for these topics focused on case studies and literature review.

To help gather input from stakeholders, CMAP staff hosted a technical forum on expenditure efficiencies on January 22, 2016, featuring presentations from the Federal Highway Administration and Illinois Department of Transportation on the use of innovative materials, processes, and technologies to reduce capital costs. That technical forum included extensive discussion among the region's transportation agencies on potential opportunities to reduce costs in project delivery. Additionally, staff will continue to gather stakeholder input on each potential funding alternative through discussions at Transportation Committee meetings and conversations with partners and stakeholders.

For each of the seven funding concepts considered in this study, the following sections synthesize current policy recommendations in GO TO 2040, subsequent CMAP staff research, and national and local case studies to suggest next steps in the development of ON TO 2050.

Alternatives to the state MFT

To provide adequate revenue in the long term, the state MFT needs to be replaced. Vehicles have become increasingly fuel-efficient, and further improvements in fuel economy are expected well into the future. In addition, a flat, per-gallon rate fails to keep pace with inflation over time. GO TO 2040 recommends that the state MFT be increased by 8 cents and indexed to an inflationary measure in the short term. In the long term, it recommends the implementation of a replacement to the state MFT, and further specifies that this replacement account for growth in construction costs, as well as overall growth in the transportation system, over time.

CMAP published a research brief in May 2015 that evaluated three alternatives to the state MFT – a mileage-based user fee, a motor fuel sales tax, and a vehicle registration fee – against several criteria, including revenue-based criteria, economic factors, and feasibility. The evaluation does not make any recommendations, but found that the mileage-based user fee does relatively well against most criteria examined because it would provide sufficient, stable, and growing revenue. However, implementation remains a significant hurdle for this revenue source due to the substantial investments in technology it would require, as well as privacy concerns it may raise. On the other hand, a motor fuel sales tax would not be difficult to implement, but is relatively volatile and only provides fair growth because it is still based on motor fuel consumption. Motor vehicle registration fees would not be sufficient to replace the MFT but could be used to supplement another replacement. CMAP staff has been sharing this research with its stakeholders over the past several months.

Findings

ON TO 2050 should recommend a specific, long-term alternative to the MFT. The brief's findings suggest that a mileage-based user fee, specifically a vehicle-miles traveled (VMT) fee, is the best candidate across multiple criteria. This revenue source may benefit from a national solution that allows VMT fees to be collected from out-of-state drivers; a national approach would also streamline implementation and reduce the state's costs of executing a collection system.

Staff recommends analyzing two flat rates for VMT fees (one for commercial vehicles and one for non-commercial vehicles) for the next plan. However, the next plan should also include policy language supporting the eventual implementation of an advanced pricing system reflecting an array of marginal costs, where different rates could be applied to travel on different types of facilities, at different times of day, and for different classes of vehicles. In FY17, staff should conduct outreach among regional stakeholders gauge opinion and begin to build consensus on a mileage-based user fee. Staff should also continue study of relevant national case studies and develop methodology to estimate revenues.

Congestion pricing

Congestion pricing is a major policy emphasis in GO TO 2040, and the Financial Plan for Transportation includes revenues from the implementation of congestion pricing on a portion of the region's existing expressway network. Note that any congestion pricing associated with new major capital projects in GO TO 2040 is not included in that revenue estimate; rather, congestion pricing is assumed to reduce the public share of the costs of those projects within the financial plan. In addition, the plan's implementation action areas call for all new expressway capacity to be congestion priced, for the eventual congestion pricing of all existing expressway capacity, and for the excess revenues raised from pricing to be invested into transit and local road improvements in priced corridors.

Since the adoption of GO TO 2040, CMAP has advocated strongly for congestion pricing. These efforts have included quantitative modeling, an outreach campaign, including both media and stakeholder engagement, and additional policy research. There are no active congestion-pricing projects in the region, although pricing was recently announced as part of a project to construct an additional lane on I-55, and has been considered for other major capital projects currently under development.

Recent changes in federal law have made it easier for states to pursue tolling strategies -- generally allowing the addition of new toll lanes to a facility, conversion of HOV lanes, and modifying pilot programs to allow tolling of existing Interstate capacity (although broad tolling of existing facilities is still prohibited). In addition, a number of congestion-priced facilities have opened across the country since the adoption of GO TO 2040. Some of these facilities have been developed in concert with transit service or equity programs, which could potentially represent an area for further study.

Findings
ON TO 2050 should retain recommendations from GO TO 2040, which support congestion pricing on new expressway capacity as well as the existing system. While GO TO 2040 was specific about using pricing to manage demand and raise revenue on the expressway major capital projects, it did not detail the most appropriate existing highway corridors in which to apply pricing. Starting in FY17, staff should revisit its analysis of congestion pricing. As pricing existing expressways will bring about a need to provide better alternative modes of transportation and may tend to divert traffic onto the arterial system, the next plan should also provide more detail on the potential use of congestion-pricing revenues within specific priced corridors, for example on enhanced transit service or arterial improvements.

Expenditure efficiencies
This concept would incorporate innovative construction practices, materials, technologies, and other strategies to reduce project costs. GO TO 2040's treatment of expenditure efficiencies focused on the utilization of performance measures to identify the most effective projects. CMAP staff has not completed significant work on this topic since the adoption of GO TO 2040.

On January 22, 2016, CMAP hosted a forum on expenditure efficiencies in roadway project delivery. The forum included presentations from FHWA staff on Every Day Counts and IDOT staff on design innovations and pavement preservation. The goal of the forum was to convene experts and stakeholders to discuss specific practices that have the most potential for expanded application in the region or the greatest effect on the cost of projects. In addition, CMAP staff was interested in discussing how innovative or more efficient construction practices should be treated in ON TO 2050, in terms of both financial planning assumptions and policy guidance. For further details, meeting notes are available for review.

CMAP is also undertaking a strategy paper on transit modernization. Capital and operational modernization in the region's transit systems may result in efficiencies that could be considered in ON TO 2050.

Findings
Based on discussion and presentations at the forum, ON TO 2050 should develop policy guidance to incorporate expenditure efficiencies in capital costs into the next financial plan. This language should acknowledge recent and anticipated advances in the construction industry that reduce capital costs via improvements in processes, materials, and technologies. The next plan should incorporate these cost savings into its long-term expenditure forecasts within the financial plan. In FY17, staff should continue outreach among regional stakeholders to build consensus on specific methodological considerations, in conjunction with the development of other assumptions for the Financial Plan for Transportation.

Non-user fee revenue
This concept would rely on revenues raised from sources with no connection to the transportation system. For example, regional sales taxes have been popular in many major metropolitan regions across the country, particularly to support transit expansion programs. At the state level, the most recent capital program, Illinois Jobs Now!, largely drew from non-transportation sources like video gaming, the lottery, increased sales taxes on candy and pop, and increased liquor taxes. At the federal level, the Highway Trust Fund required about $70 billion in bailouts from the General Fund between 2008 and 2015. In contrast, GO TO 2040 recommends that the region prioritize revenues that require users to pay an amount close to their actual cost of using the system.

In late 2014, CMAP launched the FUND 2040 campaign, which calls for a regional infrastructure fund to support transportation, water, and open space projects. Any new regional revenue source for transportation investment would require thorough analysis and evaluation to ensure it aligns with the region's priorities.

Findings
GO TO 2040 and the CMAP Board have expressed strong support for transportation user fees – which are revenue sources raised from those that benefit from use of the transportation system – and yet recent funding packages at the federal and state level have increasingly relied on an array of other revenue sources. In some cases, these sources have proved inadequate, and these funding packages are provided irregularly. The next plan should continue to express support for user fees, particularly for highway projects, as well as support for a reasonable dedicated source of funding for transit and non-motorized projects; both user fees and other reasonable sources should be set at rates that yield adequate support for investment needs.

Public-private partnerships
GO TO 2040 is supportive of what it terms "appropriate" public-private partnerships (PPPs). It acknowledges their potential benefits, but notes the complexity of PPP arrangements and stresses that they must be handled on a case-by-case basis and with a high degree of transparency and care. The original emphasis within the plan's implementation action areas had been securing broad enabling legislation for PPPs at the state level, an item that was implemented in 2011 with the passage of the Public-Private Partnerships for Transportation Act. The remaining items call for the careful review of PPP proposals and the consideration of PPPs as part of the project development process.

The Financial Plan for Transportation recognizes that PPPs could result in cost efficiencies on a project-by-project basis, reducing the public share of the costs for those projects. To the extent that utilizing a PPP reduces the cost of a major capital project, it reduces the cost that must be fiscally constrained in the financial plan. CMAP staff have worked with implementers to incorporate these estimates into the major capital project costs for previous financial plans.

CMAP has continued to provide policy research and analysis on public-private partnerships since the adoption of GO TO 2040. Much of this effort occurred over 2011-2012, when staff published a four-part series of Policy Updates exploring the issues in more detail. CMAP supported the state Public-Private Partnerships for Transportation Act, providing broad enabling legislation for IDOT and the Illinois Tollway to enter into various types of public-private agreements.

In recent years, the national PPP market has evolved in favor of availability-payment models for new facilities rather than long-term leases of existing facilities. Federal policy has continued to support private investment in transportation.

Findings
ON TO 2050 should improve policy language from GO TO 2040, primarily by adding new discussion on the need to protect the public interest in a PPP arrangement. The public interest should include transparency of the procurement process, including a demonstration of value for money, as well as ongoing access to data, interoperability with existing state and regional technical frameworks, performance benchmarking, and clawback or other remediation provisions. Given the unique nature of individual transportation projects, GO TO 2040's emphasis on a careful, case-by-case analysis to proposed PPP agreements should be retained in the new plan. The next plan should be updated to reflect the evolution of PPP structures in the United States in recent years, including new models and changes to federal and state legislation. In FY17, staff should conduct outreach among regional stakeholders to build consensus on this policy position, as part of the development of the next Financial Plan for Transportation. In addition, staff should reach out to stakeholders to determine how to incorporate PPPs into cost estimates for regionally significant projects, where applicable and appropriate.

Value capture
GO TO 2040 encourages the exploration of value capture to capitalize on the value created by new transportation investments in order to fund new or expanded transportation facilities. Value capture assumes that nearby property owners will benefit from the construction of a new or improved transportation facility through increased rents, sales, and land values, and seeks to harness some portion of these benefits to pay for the cost of the facility. In Illinois, value capture mechanisms can include tax increment finance (TIF) districts, special assessment (SA) districts, impact fees, and special local taxes such as sales or hotel taxes.

GO TO 2040 assumes that value capture will be used to partially fund two major capital projects: the IL 53/120 extension and the Red/Purple Line Modernization project. CMAP staff has been involved in analysis regarding the use of value capture on both of these projects. Recently, the IL 53/120 Finance Committee has discussed the possibility of a fund that would capture 25 percent of the increased revenue due to growth in non-residential property value within a 1-mile radius of the corridor and a 2-mile radius of the interchanges of the project. Further, CMAP commissioned two studies on value capture, one in 2010 and the second in 2011. In recent years, several bills have been introduced in the General Assembly allowing for various forms of value capture. For example, Senate Bill 277, which passed the Illinois Senate in May 2015, would allow value capture to be used for transit improvements within the City of

Chicago related to the Red/Purple Line Modernization project. Finally, limited value capture takes place in the region via TIF district support for smaller transportation improvements.

Findings
The next plan should retain the existing policy language from GO TO 2040 and continue to apply value capture to regionally significant projects where appropriate. For the latter, the plan would identify specific opportunities in consultation with project implementers and include funding estimates within the fiscal constraint of the financial plan for transportation. In FY17, staff should begin early technical work for the evaluation of regionally significant projects to identify those with value capture potential.

Variable transit fare policy
Like congestion pricing, this concept would manage demand for transit services by charging different fares for different types of trips. GO TO 2040 does not address variable transit fares, nor has CMAP staff has not completed any significant work on this topic since the adoption of GO TO 2040. Numerous academic studies have noted the benefits of variable or differentiated transit fares, which can better match marginal costs. Yet relatively few transit agencies vary fares by time of day, and relatively few non-commuter rail agencies vary fares by distance traveled.

Findings
Additional research would be needed to understand the potential regional costs and benefits of variable transit fares, including estimated costs of implementation and potential impacts on ridership. In FY17, staff could incorporate transit fare policy into the planned study on transit ridership growth. Recommendations on this topic would be developed in concert with transit service providers.

Discussion questions
Staff is interested in feedback on the above funding strategies. Specific questions include the following:

- Do you believe that the recommended funding concepts are the appropriate set to include in development of the next financial plan?
- Do you believe the drafted findings are appropriate for each funding concept?
- Do you believe the proposed follow-up activities for FY17 are appropriate for each funding concept?